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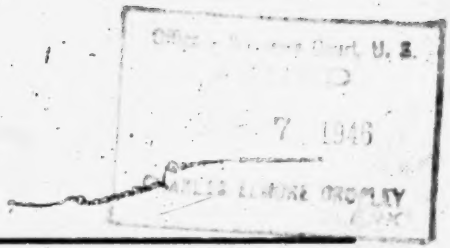

IN THE

Supreme Court of the United States

OCTOBER TERM, A. D. 1946.

Nos. 997, 998.

EDWARD KATZINGER COMPANY,
Petitioner,

vs.

CHICAGO METALLIC MFG. COMPANY;
Respondent.

PETITIONER'S BRIEF.

CHARLES J. MERRIAM,
STANLEY HOODS,
Counsel for Petitioner.

THE BLAKELY-WARREN PRINTING COMPANY, 310 WEST JACKSON, CHICAGO

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PETITIONER'S BRIEF.

I.

THE OPINIONS OF THE COURTS BELOW.

The pertinent opinions of the Circuit Court of Appeals of the Seventh Circuit were reported in 139 F. 2d 291 and 153 F. 2d 149. They appear at page 207 in R. 997 and page 31 of R. 998, respectively.

II.

JURISDICTION.

The final decree below was entered on January 22, 1946 (R. 998, p. 31). Jurisdiction is invoked under Section 240 (a) of the Judicial Code, 28 U. S. C. 347, as amended.

Jurisdiction is specifically invoked because the Interlocutory Decree entered December 10, 1943, and the Final Decree of January 22, 1946, are in conflict with the decision of this Court in *Sola Electric Company* v. *Jefferson Electric Company*, 317 U. S. 173, and directly in conflict with the case of *MacGregor* v. *Westinghouse Electric Company*, 66 Sup. Ct. 527 decided by this Court on February 11, 1946, as Case No. 410.

III.

STATEMENT OF CASE.

We shall refer throughout to the Petitioner as Katzinger and to the Respondent as Metallic.

The present case was brought by Metallic for declaratory judgment as to the validity and infringement of a number of patents, the only one now pertinent being Jackson 2,077,757. The Jackson Patent (R. 997, p. 165) relates to a baking pan in which baking surfaces are formed into a plurality of separate individual depressions which admittedly[1] greatly improve baking and, particularly, prevent the protective coating of grease or other shortening with which the pan is supplied, from running to the low points in the pan, with resulting scorching or over-heating in those areas from which the grease has escaped. The depressions are uniformly distributed in all directions, closely spaced, and small, and, therefore, do not require the use of more shortening, do not interfere with cleaning, strengthen the pan, provide better heat transfer, and make better baked goods.[1]

Prior to the Jackson invention, both Katzinger and Metallic were engaged in the manufacture of tinware for baking purposes. This bakeware was of the familiar smooth, shiny type. In 1936, Katzinger brought out a line of bakeware under the Jackson patent, using the name

1. R. 997, p. 142 and pp. 75 and 76.

"Ovenex". This was promptly copied by Metallic who put out an almost identical line under the name "Bakerex." As soon as the Jackson patent issued in 1937, a notice of infringement was sent to Metallic. Metallic, after some negotiation, took a license under the patent. The license included the following paragraph:

> "14. This contract shall remain in force for and during the life of the last expiring patent coming within the terms of this license unless sooner terminated by either party upon sixty days' written notice to the other party, provided, however, that Licensee may avail itself of this right to terminate only upon ceasing to manufacture, sell or distribute articles embodying or made in accordance with any of the licensed patents or applications • • •. Should Licensee elect to terminate, as aforesaid • • • without ceasing to manufacture, sell or distribute said article, it shall be estopped from denying the validity of said patent or patents, or any of them, and be deemed an infringer thereof."[2]

At the request of Metallic[3] the license also included the following paragraph with respect to prices:

> "11. Licensor reserves the right to establish a minimum sales price for the articles or products which Licensee is licensed to manufacture hereunder and to modify or change such minimum prices from time to time during the life of this agreement. The Licensor, as well as Licensee and any other person, persons, or corporation licensed by Licensor, shall not, with the consent of Licensor, sell or offer for sale, or other-

2. R. 997, p. 16.
3. R. 997, p. 143.

wise dispose of any of the licensed devices or products below said minimum sales price, or on more favorable terms of sale than those set forth in any such scale of prices so established by Licensor. Contemporaneously with the execution and delivery of this license agreement, Licensee has received from Licensor a schedule of minimum prices, effective as of the date hereof, below which none of the products or devices made under this license shall be sold. Licensor reserves the right, upon thirty (30) days' notice in writing given by Licensor to Licensee, to change said minimum prices from time to time during the life hereof. On such articles or devices made and sold by Licensee as to which Licensor shall have failed or neglected to establish a minimum sales price, the royalty shall likewise be computed on the net sales price received by Licensee from its customers. Licensee or its duly authorized representatives shall have access from time to time to the books of account of Licensor during ordinary business hours for the purpose of determining whether or not Licensor has complied with the provisions of this paragraph."[4]

Metallic continued to make its Bakerex structures for some time and paid royalties thereon. No attempt was made during this time to enforce the price fixing provisions of Article 11 and petitioner was always willing to have that clause removed from the contract.[5]

In 1939 Metallic began the manufacture of slightly different pans under the name of "Bake-King." The Ovenex structure of Katzinger and the Bakerex structure of

4. R. 997, p. 15.
5. R. 997, p. 143.

Metallic were made as illustrated in the Jackson patent by passing thin sheets of metal through rolls which formed a series of parallel spaced depressions formed in rows running in two directions on the plate. In making the Bake-King line, Metallic used the identical pattern on the rolls but instead of passing the metal sheets through the rolls once, passed them through a number of times, generally from three to six.[6] Inasmuch as the impressions on the rollers were bi-laterally symmetrical, this did not destroy regularity of distribution, but merely deformed the shape of the depressions. Each passage through the rolls simply added an additional Jackson arrangement. The pans still had regular rows of depressions regularly arranged in at least two directions, and were claimed by Metallic to have the same advantages over the smooth pans that were set forth in the Jackson patent.[7] The change in practice was no more significant than the change of the name from Bake*rex* to Bake-*King*. Metallic contended that the Bake-King ware did not infringe the Jackson patent, but it did in fact infringe it.[8]

Katzinger demanded royalties for the Bake-King articles, and in response to this demand, Metallic gave notice of termination of the license under article 14. Katzinger brought a state court action for royalties, after which Metallic filed this action for declaratory judgment. Katzinger originally contended that Metallic had no right

6. R. 997, p. 156, Finding 14.
7. R. 997, p. 142.
8. R. 997, pp. 143 and 156.

so to terminate the license and, therefore, contested the right of Metallic to bring a declaratory judgment action. This issue was decided adversely to Katzinger by the Circuit Court of Appeals in an opinion reported in 123 F. 2d 518. Katzinger thereafter conceded that the license had been terminated.

In the District Court, Katzinger insisted that the Bake-King line was an infringement of the Jackson patent and that Metallic thus came within the provisions of article 14 of the contract and particularly the last sentence thereof, in that it had terminated the agreement "without ceasing to manufacture, sell or distribute said article." It, therefore, contended that Metallic was by the language of said article "estopped from denying the validity of said patent." The District Court found that the Bake-King ware did infringe the Jackson patent,[8] and, therefore, found that Metallic was estopped to deny the validity of that patent in accordance with the terms of the contract.

Neither the complaint seeking declaratory relief nor the answering counterclaim sought any relief under, or enforcement of, the price fixing clause 11 of the contract. The case as presented to the District Court involved a concession by both parties that clause 11 had passed out of existence prior to the institution of the action.[9] For this, and other reasons, the District Court found the

8. R. 997, pp. 143 and 156.
9. R. 997, p. 30.

decision of this court in the case of *Sola Electric Company* v. *Jefferson Electric Company* inapplicable, saying:

> "It is the opinion of the Court that the petitioner is estopped from questioning the validity of the two patents relied upon by the respondent herein. The decision of the Supreme Court in the case of *Sola Electric Company* v. *Jefferson Electric Company* so strongly urged by the petitioner as being applicable to this case, I feel is not in point. In this case no price fixing by the respondent has been proved by the petitioner. The evidence shows that the clause to which petitioner refers in its argument was inserted in the contract at the request of the petitioner. At no time did the respondent attempt to carry it out and the respondent was at all times willing to have same removed from the contract. For these and other reasons apparent upon a reading of the Supreme Court's opinion, I feel that the decision in the *Sola Electric Company* case is not controlling here."[10]

(It should be noted that the Petitioner here was the respondent below.)

Metallic appealed from this decision and, in its decision of December 10, 1943, the Circuit Court of Appeals found that the *Sola* case was applicable, even though the price fixing arrangement had terminated prior to the institution of the action and was not in issue, and Katzinger had never sought to enforce it; the court saying in part:

> "By the plain provisions of the license agreement, there were arrangements for price-fixing. This was not a separable provision of the agreement and it

10. R. 997, p. 143.

was, like the rest of the agreement, based upon a common consideration and was a part of the contract after notice of determination, though *functus officio* as to the future. The agreement was not purged of the deleterious effect of the price-fixing arrangement by notice of termination. The vice lay in its incorporation in the contract at all. A contract containing price-fixing provisions which do not have the protection of a lawfully granted patent monopoly is invalid, being a violation of the Sherman Act, and no recovery may be had upon it. *Continental Wall Paper Co.* v. *Voight & Sons Co.*, 212 U. S. 227, 29 S. Ct. 280, 53 L. Ed. 486. Therefore, since the validity of the entire contract depends upon the validity of the patent, it is clear that no estoppel arising out of the contract can prevent an examination of the patent's validity."[11]

Having found that there was no estoppel to deny validity, the Court of Appeals remanded the case to the District Court for free determination of validity of the Jackson patent. On a new hearing the District Court found the patent invalid and enjoined Katzinger from prosecuting its state court case for recovery of royalties. The Circuit Court of Appeals affirmed this finding, in its decision of January 22, 1946 (153 F. 2d 149). The decision of the Circuit Court of Appeals rendered December 10, 1943 was not a final order and, therefore, was not appealable until after the rendition of the decision of January 22, 1946. A petition for certiorari was filed in due course after that decision and was granted on April 29, 1946.

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11. R. 997 p. 210.

IV.

SPECIFICATION OF ASSIGNED ERRORS.

1. The Circuit Court of Appeals for the Seventh Circuit erred in refusing to recognize the estoppel to deny validity of Jackson patent 2,077,757, as provided in Article 14 of the contract and in therefore finding said Jackson patent invalid.

2. The Circuit Court of Appeals erred in its interpretation of the decision of this court in *Sola* v. *Jefferson*.

3. The Circuit Court of Appeals' opinion is directly in conflict with the decision of the Supreme Court of Pennsylvania in the case of *MacGregor* v. *Westinghouse Electric Co.* (350 Pa. 333, 38 Atl. 2d 244), and the affirming opinion of this court (66 Sup. Ct. 527).

V.

ARGUMENT.

The present case is one where all of the equities are on the side of Katzinger. Metallic deliberately copied the structure of the Jackson patent from Katzinger. It even adopted a similar name. When threatened with suit, it chose not to defend against the patent but asked for a license.[12] At that time Metallic was told by Katzinger[13] that it would issue no licenses until the question of validity was settled for all time to come—that Katzinger would rather litigate then than make contracts and litigate later. Because of this fact the estoppel clause 14 was added.

Metallic asked for a price fixing agreement[13] and a clause relating to prices was inserted, but never enforced.[15]

Metallic, after paying royalties for a time, made a palpable attempt at evasion of infringement, even though it continued to advertise that its new product had all of the advantages of the Jackson patent.[16] When suit for royalties was brought in the state court by Katzinger, Metallic brought this action in the Federal court to enjoin prosecution of the state court suit. That relief has been granted, on the theory that the estoppel clause is invalid because

12. R. 997, p. 53.
13. R. 997, p. 55.
14. R. 997, p. 143.
15. R. 997, p. 143.
16. R. 997, p. 142.

of illegality although Katzinger never sought to enforce the price fixing, did not seek to do so in this action, and never can enforce it.

The facts in the present case are clear and present an entirely different picture from those present either in the *Sola* case (317 U. S. 173) or in the *MacGregor* case which is being argued herewith.

In the *Sola* case, action was brought by the patentee solely on the license contract and the complaint included a specific request for an injunction to enforce a price fixing arrangement under the contract. As this court there said, the question submitted was:

> "Whether a patent licensee, by virtue of his license agreement, is estopped to challenge a price fixing clause in the agreement by showing that the patent is invalid, and that the price restriction is accordingly unlawful because not protected by the patent monopoly."

In the present case each of the following facts distinguishes from the *Sola* case:

1. The present complaint was filed by the licensee, and the relief granted by the courts below was to the licensee.
2. Katzinger, as patent owner, does not and could not seek enforcement of the price fixing agreement.
3. The price fixing agreement in the present case had terminated by the terms of the contract before any action was brought by either party.
4. The price fixing agreement in the present case was found by the courts below not to have been enforced by Katzinger.

5. The estoppel was never concurrent with a price fixing arrangement. The estoppel did not and could not come into being until the price fixing arrangement had terminated.

6. There was nothing in the contract here which *required* a violation of the Sherman Act, since it could have been carried out entirely intrastate. Yet the Court of Appeals found it invalid in its inception.

In the *Sola* case it was decided that an enforcement of the Sherman Act would not result in interference with local law. In the present case, the Circuit Court of Appeals went much further and held that an Illinois contract between two Illinois citizens was invalid in its inception and tainted throughout with illegality because a minor portion of it *might*, in the past, have resulted in a restraint of trade, illegal under federal law. A price fixing arrangement under a patent is not *per se* illegal and has not been so held by this court. It is obviously not illegal if the patent is valid. The Circuit Court of Appeals in our case found the said contract invalid *in toto* because of the possibility of invalidity of one part of it, which had passed from existence before the part sought to be sustained had come into effect.

There is no question that the decision in the *Sola* case does not apply to the present facts. As this court said in that case:

"Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are

unlawful, and to the public policy of the Act which in the public interest precludes the enforcement of such unlawful agreements."[17]

Katzinger is not here asking, and never has sought, that a price fixing agreement be fastened upon the public or any member of it. Katzinger is not in a position to do so if it wished, because the price fixing agreement terminated before the estoppel here asserted came into being.

The question, therefore, is whether the Circuit Court of Appeals of the Seventh Circuit was correct in extending the doctrine of the *Sola* case beyond either the decision of this court, or any implication thereof. The decision of the Seventh Circuit Court of Appeals in effect holds that any price fixing agreement is evil *per se* and so affects any contract as to render it invalid, not only in the part concerning the price fixing agreement, but in all other parts. It is strange that a court which would proceed so far should overlook the fact that it actually awarded equitable relief to the party who had requested and insisted upon the inclusion of a price fixing clause.

It seems to us that what was sought to be accomplished in the *Sola* decision was a very simple and correct thing. A price fixing agreement affecting interstate commerce is contrary to law under normal conditions. It may be justified under a valid patent. All this court held in the *Sola* case was that a price fixing agreement could not be elevated to validity by an agreement between the parties that a pat-

17. 317 U. S. 173 at p. 177.

ent was valid. In considering any price fixing agreement, the court's hands cannot be tied by agreement of the parties, to prevent the court from determining whether a patent exists. In effect, this court held that a contract agreeing to recognize the validity of a patent would be no more the basis for upholding a price fixing agreement than would a private agreement that a patent existed, when in effect there was no patent even purporting to cover the product. For example, this court obviously would not permit a price fixing agreement on ordinary gasoline to be upheld merely because the makers of the gasoline agreed that Patent No. X covered the unpatentable gasoline. The *Sola* case merely carried this point to a logical conclusion in finding that a court could not be prevented from inquiring into the validity of a patent which was the basis for such an agreement, merely because the Patent Office had issued it and it purported to cover the product.

This court did not hold anything more than we have just suggested. There is no complementary reason to refuse to recognize an estoppel to deny validity. A recognition of that estoppel would bring about no harmful result. The estoppel is normally implied as a matter of law. A price fixing agreement tied to what is presumptively a valid patent must presumptively be valid. We cannot see how it could be said to taint a contract containing it with such illegality as to make everything in it illegal, even when the price fixing agreement has passed from existence and was

never sought to be asserted by the party against whom the alleged illegality is invoked.

In the present case, of course, the price fixing clause was plainly meant to be severable. The fact that it was not enforced clearly shows that neither party considered it part of the real consideration for the license. Under the circumstances, even if it was illegal, the remainder of the contract would be valid (*Gelpke* v. *Dubuque*, 1 Wall. 222). See also Restatement of the Law of Contracts, Section 518.

The contract in this case was between two Illinois citizens with their places of business in Illinois. The contract was, therefore, governed by Illinois law. There is nothing in the original contract which was necessarily violative of the federal anti-trust laws. If Katzinger and Metallic had confined their business to Illinois, (and the Court made no finding to the contrary), the original price fixing agreement could not violate any federal statute. The decision of the Circuit Court of Appeals that the contract was tainted from its inception with illegality under the Sherman Act was, therefore, obviously and wholly erroneous. We cannot understand how any illegality ever affected it. The contract was not tainted with illegality in the beginning. The finding of the District Court was that the price fixing arrangement had never been enforced. When then, did the contract become tainted? It was not initially tainted and there was no time when it became tainted in fact. Long before the suit started, and

before the estoppel asserted here arose, the price fixing agreement had been eliminated by the terms of the agreement itself. But, even if there had been a period when price fixing was enforced, and even if price fixing related to the entire contract, the illegality, if any, does not taint the entire contract but could only affect that part of it relating to interstate commerce.

In *Westinghouse Electric Co.* v. *MacGregor*, 350 Pa. 333, Westinghouse had brought suit in the State Court for accrued royalties. MacGregor asserted that it had the right to attack the validity of the patent under which the license had been granted because the licensing agreement contained a price-fixing clause (even though it had never been enforced). The Supreme Court of Pennsylvania in holding against MacGregor's contention stated at page 339:

> "If the Sola case is to be given by the courts the sweeping interpretation the defendant gives it, the validity of every patent in the land would under circumstances akin to those we have here, be subject to collateral attack in any court. The court below aptly said: 'In the instant case, the court has not been requested either directly or indirectly to require MacGregor to maintain Westinghouse prices. By his own testimony he has not maintained them. The price-fixing clause is not in issue. It is raised merely as a defense to a suit for accounting and payment of accrued royalties. The legality, the enforceability of the price-fixing clause is a moot question. We, therefore, do not propose to declare the Jones patent invalid. Whether the price-fixing clause in the license is legal

or invalid is not before this Court. It is our judgment that the decision of the Sola case does not control or determine the instant case.' "

The Court further stated at page 340:

"In the instant case the plaintiff is not attempting to enjoin the defendant from selling the products he is licensed to sell, at prices less than those charged by the licensor. To grant the relief prayed for here does not result in anything which is interdicted by the Federal Anti-Trust laws. Therefore, the decision in the Sola case, *supra*, does not govern the decision of any issue raised in this case."

As in the *MacGregor* case, the present suit does not seek directly or indirectly to require the maintenance of fixed prices. In neither case had fixed prices been maintained. The legality or enforcibility of the price fixing clause is here moot. In the *MacGregor* case price fixing could be asserted in the future, but in the present case there is no possibility of it.

VI.

VALIDITY OF THE JACKSON PATENT.

The District Court and the Court of Appeals found the patent invalid aside from the estoppel. The District Court did not write a memorandum as to its reasons.

The Court of Appeals found the patent invalid over substantially identical sheet material previously available for store fronts and the like. The Court of Appeals held (R. 998, p. 35) that:

> "There was nothing to prevent a person of ordinary mechanical skill from using such sheets in the making of baking pans. Certainly it would not require inventive genius to thus shape these sheets. The fact that the metal may have been designed for ornamental purposes would not deprive a person from using it for other purposes, such as baking pans."

This is obviously not a proper analysis of the law. The court did not challenge the original findings of the District Court (R. 997, p. 153) that, prior to Jackson, it was universally believed that any surface other than a smooth surface would interfere with baking and with cleaning and that Jackson discovered "quite unexpectedly":

"(a) that the new baking pan had a more pleasing and appealing appearance;

(b) that it was not easily scarred, marked or smudged;

(c) that it had greater strength and resistance to denting and warping;

(d) that it distributed the grease more evenly over the inner surfaces of the pan;

(e) that the pan surface was increased for a given amount of volume so that baking was improved, and

(f) that heat transfer was improved for the same reason."

These findings of the District Court were not overturned by the Circuit Court of Appeals nor by the District Court in its second hearing, although the District Court did not reenter them when it found the patent invalid.

The Circuit Court of Appeals found no invention in the combination of a baking pan and what had been merely an ornamental design. If the only result from this combination had been an ornamental baking pan, the holding of the Court would apparently be correct. The result of the combination, however, produced new and unexpected results not only in ornamenting the pan, but in greatly increasing its efficiency and capability as a baking pan. A great deal more was involved than merely replacing the smooth surface of a baking pan with an ornamental surface. When used in a baking pan the ornamental design became functional for the first time. A new product resulted, differing from all that had preceded it in usefulness and excellence, and having new properties.

A baking pan made from an old article, is patentable if new and unexpected results are accomplished thereby. The District Court found that such results were accom-

plished. The Court of Appeals did not contest this finding. Therefore, the decision of the Court of Appeals is completely erroneous as a matter of law. (*Smith* v. *Goodyear Dental & Vulcanite Company*, 93 U. S. 486 at p. 496.) See also *Loom Co.* v. *Higgins*, 105 U. S. 580.

Respectfully submitted,

CHARLES J. MERRIAM,
STANLEY HOODS,
Counsel for Petitioner.